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ABSTRACT

New and cheaper means of acquisition and distribution are giving individuals easier access to information. This has contributed to dissatisfaction with corporate governance and business management and is encouraging the growth of new types of interest groups that are seeking a voice in the private sector. This may lead to a reversal of the trend toward centralization of power, resulting in a reallocation or sharing of authority at local and regional levels. Such major social changes as public alienation, distrust of institutions, and modification of personal and family values have already affected the decision-making process of major institutions. The political sector is no more immune to change than the busiress sector. Business leaders will find it increasingly difficult to respond to employee and public pressures and still feel they are in control of corporate decision making. Forces external to the private sector are creating an atmosphere where business leaders will be obliged to develop new approaches to decision making. These trends have implications for life and health insurance company management in several areas, including legislation, public relations, human resources, and marketing. (A related ERIC information analysis on the changing nature of work is available separately--see note.) (MN)

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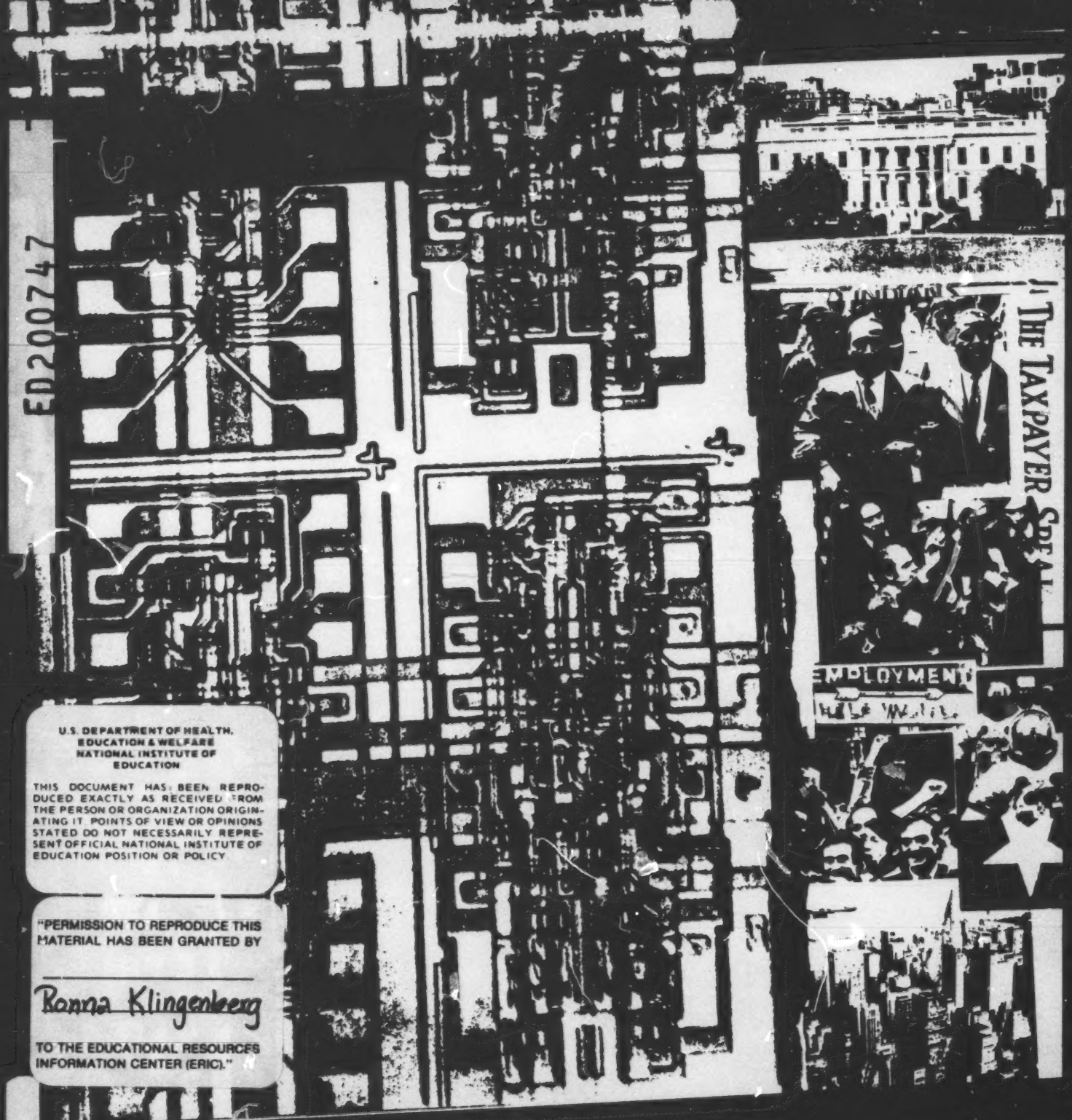

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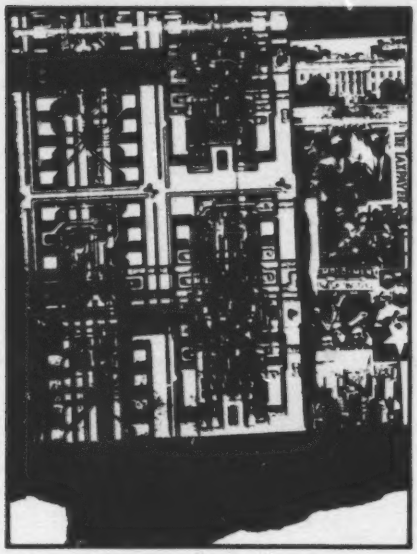

The montage on the cover combines images of social and technological change. The blown-up photo of a micro-electronic circuit, which dominates the cover, illustrates the pervasive influence of smaller, more efficient and less expensive information and communication technologies. The familiar faces and scenes played against the technological element remind us how changing attitudes and values can re-shape institutions.

TAP #18 will discuss these elements of change within the framework of their potential impact on institutional decision-making processes.

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Executive Summary

The stone age . . . the iron age . . . the industrial age . . . and now, the advent of a new technological age, with a tremendous and challenging outpouring of information. There are signs that the power of business institutions and decision-making capability of business leaders will be decisively modified in the near future by emerging technologies and by changes in America's cultural attitudes. TAP #18 explores the effect of this phenomenon on the life insurance business.

1. New technologies invariably alter the distribution of power. In today's world, new and cheaper means of acquisition and distribution of information are giving individuals easier access to these systems. This has contributed to dissatisfaction with corporate governance and business management and is encouraging the growth of new types of interest groups that are seeking a voice in the private sector.

2. In the long run, the trend to centralization of power (for example, in Washington and in corporate structures) may be reversed by the new technologies, resulting in a reallocation or sharing of authority at local and regional levels.

3. Major social changes have already affected the decision-making process of major institutions. Among these is public alienation, distrust of institutions, modification of personal and family values. This trend will continue.

4. The political sector is no more immune to change than the business sector. External pressures are already modifying the nature of political representation (i.e., breakdown of the committee structure, and the growing influence of special interest groups). People have begun to turn to local controls for solutions to problems such as energy shortages and environmental pollution. Self-reliance is becoming more of a reality.

5. Corporate decision-making is in a squeeze; a growing number of groups with different interests and motives assume they have a right to participate in the decision process, among them employees, stockholders, public interest, regulatory and local community organizations. Business leaders will find it increasingly difficult to respond to these pressures and still feel they are in control of corporate decision making.

6. Taken together, forces external to the private sector are creating an atmosphere where business leaders will be obliged to develop new approaches to decision-making. At the same time, the public will expect these leaders to justify both their decisions and the processes by which they are reached.

VOTE NO
VOTE NO
VOTE NO
VOTE NO
VOTE NO

**"There is increasing agreement
that one of the difficulties we face today results from
the increasing complexity of the decision-making process in our society.
There appear to be several primary reasons for this situation.
First, man's capability to affect conditions
has increased very greatly because of his growing technological capabilities.
Second, we now have far greater knowledge
of how to influence individual perceptions and decisions,
and various groups use this knowledge
to try to achieve different goals
which often cut across each other.
Third, there is a growing desire
for participation in decision-making
which makes the 'efficiency' of bureaucratic styles
increasingly unacceptable."**

Robert Theobald
Economist and Futurist

Introduction

It is reasonable to assume that institutional decisions will be made in the future pretty much as they have in the recent past. Trends that have created present decision-making patterns include: increased centralization of authority, greater organizational complexity, more emphasis both on specialization and hierarchies to organize work. All such trends might seem destined to continue unabated for the next few decades.

But two seemingly unrelated developments, noted by TAP, could produce profound counter-forces to those trends.

The first is the cultural transformation that is associated with changing attitudes toward authority. In the past, people in a position of power were credited with having both the information and the inclination necessary for acting wisely. Today, however, authority, voluntarily given, is being withdrawn. Criticism of professionals (including, but not limited to, doctors, lawyers, dentists and accountants) is common. The demystification of medical ritual, for example, coincides with a demand for participation in other authority relationships (such as the Army). At the same time, there is a growing feeling that decision-making by experts has not worked very well and that today's complexity might be better managed by decreased specialization.

The diminishing public faith in institutional decisions reflects these changing attitudes toward authority. Proposition 13, calls for more democratic corporate governance, public outcry against the proposed saccharin ban, support for privacy laws, the self-care movement in health—all have one element in common: fundamental challenge to the legitimacy and validity of institutional decision-making processes. (The reader is referred to TAP #12 for a full discussion of this cultural transformation.)

The other trend that is reshaping institutional decision-making is the revolution in communication and information technologies. Here we must wait to see whether this will lead to decentralization of decision-making or whether decision-making will eventually be controlled by just a few people.

Both the social and technological forces of change operating on the decision-making process will be examined in this report.

"We are becoming, nationally and globally, a cybernetic society that chooses its own goals deliberately. Since the 1960s, we have begun to reject in advance this or that technology or structure, to demand research and development of alternatives. This is the meaning of the protest movements, the blocking of supersonic transport, research on solar energy, human rights, and public accountability. Such a society requires ongoing education and continuing debates. Only the electronic media can reach everyone fast enough to make this kind of self-transformation possible."

John Platt
University of California
lecturer in environmental studies and anthropology,
December 1978,
Bulletin of the Atomic Scientists.

Technologies & the Information Era

Technologies influence the way we experience the world. Communication and information technologies changed society in the past because they were used to alter the distribution of power. For example, there are arguments that Hitler could not have wielded the same control without the telephone and film systems at his command, and more recently, assertions that the widespread installation of telephones contributed to the fall of the Shah of Iran. Far more sophisticated and effective technologies will be available to the power-shapers of the future. Their influence is such that one can say that we are about to enter an Information Era.

The likelihood of two major breakthroughs in communication and information technology paves the way for the Information Era. One is the merging of information and communication technologies. The "wired city" of the future will rest upon a system that allows for transmission of data and interaction between persons or between computers through cables, microwave relays, or satellites. Second, the cost of technologies will continue to drop, as the cost of hand-held calculators has dropped so swiftly and dramatically.

Combined, these forecasts indicate that the average individual will be able to have access to systems more sophisticated than those used by large institutions today. Cheap and efficient home information centers of the future will have the capabilities of today's computer, television, camera, telephone and stereo—all in small, single units.

The building blocks of a giant-size national communications-information system are now being put into place. Video, audio and computer teleconference facilities allow groups to communicate at any time, from anywhere. Current experiments with two-way TV cable allow viewers to "talk back" to their screens. Teletext systems make it possible for British consumers to use their TV and telephone to reach data banks for information and the growing use of fiber optics* in place of copper wires is making possible a variety of "multi-way" communication systems.

As a result of the revolution in micro-electronics (and the expecta-

**Fiber optics is a way of sending messages, from ordinary phone calls through computer information and television pictures, along miniscule fiberglass strands instead of metal cables or microwave antennas.*

tion of voice activated computers), futurists forsee the development of "universal personal accessories" with communications, memory and information processing functions. Under the most optimistic of scenarios, these devices could do everything from monitor an individual's vital signs—sending out distress signals if anything goes wrong—to handling that individual's financial transactions. If each person had such an accessory, with a number to go with it, he or she could contact (or be reached by) anyone in the world at any time. Some scientists are already looking to the day when these devices will be so tiny (i.e., constructed from biological material of cellular size) that they can be implanted in the brain.

Not all of these technologies seem desirable. Consumers who rest easier at night because of the security provided by two-way cable TV may not rest as well if they suspect that data about them is being collected and stored for some unwarranted use. Satellites that bring the shared communications necessary for a truly global village may not necessarily create a climate of caring and trust among the villagers. And, while it is probable that the information-rich sectors of our society will get richer, it is possible the information-poor will lag further. Forecasts of worldwide unemployment, displacement of entire categories of workers, and "epidemics" of profound social alienation compete with equally believable forecasts of an electronic environment that will lead to a new closeness and greater enrichment of individual lives. It is not yet clear which forecast is the more likely.

This much *is* clear: information and communication technologies help to create comprehensive changes in the way that institutional decisions are made. Systems and institutions that are built on knowledge and information-dissemination (such as corporations, schools and governing agencies) will not remain unchanged by technological advances of the magnitude we have described. These technologies could be used to further the centralization of authority, to the point where Big Brother is watching—by invitation—

near George Orwell's target date of 1984. Or, technologies could eventually decentralize decision-making, and result in a future so dominated by parochial interests that citizens have no choice but to "vote with their feet," moving to areas that allow the lifestyle they prefer.

This chart illustrates some of the alternative authority patterns that could develop as new communication and information technologies are introduced and used. These technologies, including:

- **Two-way cable television**
- **Electronic Data transmission (microelectronic computers)**
- **Satellite transmission and widespread use of fiber optics**
- **Home video records and video disc players**

may undermine the stability of current power structures.

The chart is not intended to classify decentralization as good and centralization as bad, or vice versa. Rather, it attempts to show how these technologies could be used to create vastly different sociopolitical futures.

Possible Decentralizing Impacts

- *Majority of local decisions based on public opinion. More decisions tend to revolve around emotional arguments as opposed to issue analysis.*
- *Elderly, handicapped and children have greater access to policy considerations. Political instability results.*
- *Knowledge becomes available to more people at lower costs. Extensive use of fiber optics allows multi-way communications among cable subscriber, the head end and other subscribers.*
- *Pressure for review of legal concepts, including unfair competition, common carrier.*
- *Use and availability of information increases individuals' power over their environments. Increased volume of social communication leads to further decline of mediating institutions such as unions, fraternal organizations and families.*
- *Print media displaced almost completely by electronics. Individualized news available; individuals informed only about developments in their area of interest.*
- *Information literally becomes a commodity, with its own market rules. EFTs and trans-border data flow legislation (that restricts information to within national boundaries) reshapes the financial services community and information becomes a foreign policy weapon.*
- *Wrist watch sized portable communication accessories allow broader array of interpersonal communications, financial services, etc. The need for some traditional service organizations is diminished. It is possible for anyone to access anyone else, anywhere.*
- *Expanded program and recreational choices.*
- *Advertising changes radically; consumer information channel replaces traditional advertising function.*

Possible Centralizing Impacts

- *Cable companies survey the public. Questions are subject to sponsor's approval.*
- *Political system so overloaded by input that information must be increasingly screened out.*
- *Start-up costs of technologies are so high that business expected to assume more responsibility for educational efforts. Information poor organize to demand equal knowledge opportunity.*
- *Tax collection simplified; government simply appropriates its share.*
- *Importance of information creates a property class whose power is in their heads. Knowledge institutions replace corporations as most powerful organizations.*
- *Schools required to air tapes that present political debates since public demand for them is so limited. Decreased emphasis on printed messages and to some degree language. Visual displays, learning by watching, predominate. Local TV stations close.*
- *Information banks dominated by a few groups.*
- *Portable communications devices make it possible for interested persons to keep track of an individual's whereabouts.*
- *Major industry realignment in recreational and entertainment areas.*
- *Individual more susceptible to outside manipulation. There is negligible difference between advertising and programming.*

The potential impact of technological impacts on decision-making structures could include changes in: (1) the number of people capable of participating in decisions and their ability to process the information necessary to participate; (2) the capacity of a single person to influence a large information network; (3) the opportunity to ignore the constraints of geography and time; (4) the need for literacy (and definitions of literacy); and (5) the ability of individuals or small groups to mobilize resources.

One way to estimate the potential impact of technology is to examine past situations. The foundation of the current decisional environment was laid by the Industrial Revolution two centuries ago. Industrial technologies have had a centralizing effect—people must be where the machines are. The assembly line, which was created by industrial age technologies, served as a model for business bureaucracies that were based on belief in economies of scale, in the efficiency of breaking tasks down to their smallest component, and in the apparently limitless growth promised by a resource-rich country. These technologies were a driving force behind decision-making styles that valued growth above all else. In a similar manner, Information Era technologies, especially in an age of energy and materials scarcity, could force a transition to another decisional climate.

Yet Information Era technologies are not being developed in a vacuum. They, in turn, are shaped by, and shape, social needs and goals.

"In short, the first step toward effective management of change is recognition that every decision influences all other decisions because it alters the state of the social system."

"From Problems of Social Change—Toward a New Culture Paradigm,"
by ***Ted R. Brannen,***
occasional paper published by Center for Futures Research.

Institutions, Decisions & Social Change

It is a truism that institutional leaders must make decisions. Yet their task is becoming more difficult. How can they make viable decisions when attitudes toward authority and responsibility are in flux? How can they make decisions when societal goals, even including the very definition of progress, are being challenged? How can they make decisions knowing that the ensuing near-term benefits may be completely neutralized by long-term consequences?

Business executives in particular seem to feel their decision-making processes are under attack. Developments in recent years—the rise of consumerism, increased Federal government regulation, and calls for social audits, democratization of corporate governance and binding ethical codes—contribute to executives' concern about the external forces that are affecting their decision-making processes.

But business leaders are not alone. Trends that are affecting the decision-making process in corporations apply to other institutions as well.

For example, after Vietnam and Watergate, it is not surprising that the public trust in institutions slipped sharply. Public alienation with institutions continues. According to a Louis Harris study sponsored by Sentry Insurance, fully half the public is moderately to highly alienated.

The cross-institutional impact of widespread alienation and loss of institutional legitimacy will be examined in this section of the report. Since corporations are of primary importance to TAP's audience, the report will focus largely on them. But to illustrate the depth of change, we shall first briefly discuss political and scientific institutions.

"A democracy is not judged by the degree of participation but by the potential for people to have an impact on decisions that directly affect them."

Worker Participation—Productivity and the Quality of Work Life,
by ***Bruce Stokes,***
Worldwatch Paper,
December 1978.

People and Politics

Is the political decision-making process adapting to a changing society?

- Voter turnout is at its lowest level since World War II. According to political scientist Norman Nie, voter turnout has dipped dramatically prior to each of our past upheavals in the party system.
- Political labels—liberal, conservative—have largely lost their meaning.
- Political parties have lost considerable power and with it the ability to generate coherent platforms.
- The simultaneous appearance of "furiously participatory" interest groups and very high alienation rates indicate that "withdrawal and participation have become two predominant ways of acting upon dissatisfaction with government and society," according to Tufts University Professor Stuart Langton.
- Government increasingly determines the quality of life for citizens, but citizens have had no corresponding increase in the determination of government.
- The popular press repeatedly asks: "Is Congress Obsolete?" citing the breakdown of the committee system; election of one-issue candidates; the growing influence of special interest groups; and the greater numbers, and power, of Congressional staff members.

- The Civil Service, the unofficial fourth estate of government, has assumed tremendous discretionary power in administrative decisions.

While it is not the purpose of this report to examine the future of the United States political system, government decision-making procedures obviously have a profound impact on other institutions.

Potentially the most important trend is the drive for direct, as opposed to representative, democracy. Whether the reason is distrust of elected representatives or the desire to control government spending, the American public seems enchanted with the idea of less representation.

In a 1979 Gallup poll, a 57 percent majority of the public agreed that Federal initiatives are a good idea. Social scientist Everett Carll Ladd, Jr., thinks this romantic yearning for a "purer" direct democracy is "capable of generating a potentially dangerous attack on the *institutions* of democracy." How does one return power to the people in a complex world?

Others view the direct democratic process as a historical imperative, noting that since the Magna Carta there has been an expanding pattern of participation extending from the hands of the few to the hands of the many.

In a trend that may be related to calls for direct democracy, some people are proposing a more serious consideration of alternative methods of reaching agreement. Critics of majority rule say that this may have been an appropriate method of governing a growth-oriented society, but that it is inappropriate in a society which may be entering a period of slow growth or even no growth. Perhaps—argue critics including environmentalists and futurists—a post-industrial society could make more intelligent use of its resources by striving for consensus decisions.

Majority rule is expensive; the minority whose wishes are ignored often slow implementation of the decision and frequently all the issues are not aired before the decision is reached. Drawing upon the experience of North American Indians and participatory democracy movement the participatory democracy experiments of the 1960s (food co-ops, alternative health care systems, and feminist groups) as examples of success, some proponents call consensus techniques the next logical step in direct democracy.

However, the flaws in this model, such as lengthening the negotiation process, are obvious. One strength is that the consensus process adds legitimacy to decisions, a legitimacy that other institutional decisions currently lack. The successes that anti-nuclear groups have had to date have been attributed to coalitions made up of groups using consensus techniques.

Dr. Jane Mansbridge argues in *Center Magazine* that two democracies have evolved; the adversary model, through which most decisions are now reached, and the unitary model, based on friendship and trust. The unitary model could be strengthened by the advent of new communications and information technologies which would make it possible to create small communities of shared interest. In electronic communities, disagreements could be hammered out "face to face."

"One of the major forces that is affecting—and is likely to affect—the future role of all institutions is increasing citizen participation in social decision-making. By participation is meant individuals' direct involvement in and control of those decisions that affect their lives—and no sector of society is immune to the effects."

Roy Amara
President of the
Institute for the Future

Even those who do not support direct democracy feel that new forms of citizen participation are necessary to make government function in a responsive and effective manner. Many of the new citizen participation schemes involve control of government spending. Futurist Alvin Toffler proposes a marriage of the tax revolt with citizen participation and a vow of "no allocation without participation." He suggests regular tax referendums and experimenting with the income tax form as a kind of ballot which lists alternative purposes and allows the taxpayer to rank his or her choices. Another proposal is for referendum/rebate systems that would return money to the states that refuse to participate in specific Federal programs (such as the development of neutron bombs).

Intervenor funding* could also encourage the participation movement and is being made more practical by new communications technologies. One cautionary note is that rising political skills could lead to political breakdown, if participation increases more rapidly than society's ability to institutionalize it.

The middle class has traditionally been at the heart of the public interest movement, which seemed to result from the feeling that the public had a legitimate interest in many decisions that had previously been made without regard to the public interest. Another major trend is the resulting growth in numbers and importance of public interest groups.

A related development is what some call the "Balkanization of America" or the "crumbling of consent" as America seemingly splits into innumerable interest

*Intervenor funding, grants made to citizens and groups to cover the costs of attorneys' fees and other expenses for their participation in the Federal proceedings, is a process several Federal agencies are trying to establish.

groups. One example of this Balkanization may be the growing influence of localities, as demonstrated by the rapid rise in state and local government employment during a time when Federal government employment remained fairly stable.

Activists have gone back to the grass roots to search for more clout, according to an estimate in the *National Journal*. Young activist state legislators have begun to help each other by networking information, while other local activists are finding support from groups like the New School for Democratic Management, which teaches "establishment" business practices to "alternative" enterprises. The trend toward greater local activism is also buttressed by information on local energy efforts collected by an organization appropriately named the Institute for Local Self-Reliance, which suggests that local activities are growing but are poorly reported by the media.

Some activist elites are trying to relate their efforts to impending global crises; for example, to the developing countries' call for a "new international economic order" and a redistribution of resources. Activists say that efforts to solve local problems at the local level can do more to solve global resource scarcity problems that national government solutions. In its recital of efforts to solve problems at the local level, another well-named organization, Worldwatch, observes: U.S. home gardeners stretching their food budgets by up to 10 percent; self-help housing, which saves some American homeowners from one-quarter to one-half of construction costs; and self-help health care, which reduces hospital admissions by half of some chronic illnesses, while basic preventive health measures reduce the incidence of coronary heart disease and cancer in industrial countries.

However, even the most impassioned supporters of local control and self-reliance are aware of the disruptions presented by parochial groups with short-term interests. Examples of communities battling against the placement of de-institutionalized mental patients and the location of methadone clinics in their neighborhood can be interpreted as battles between the haves and have-nots.

"Anybody who believes that after this information revolution a voter-employed bureaucracy can continue to be the main instrument of government is being as daft as anybody who forecast in 1816 that the number of handloom weavers would continue to grow and grow."

Norman Macrae, in ***The Economist,***
December 1978.

A fourth trend is the emergence of new values. Younger generations in Western nations, it is being argued, are more likely to hold post-materialist values. These values include increasing emphasis on needs for belonging, esteem and self-realization. In *The Silent Revolution*, political scientist Ronald Inglehart forecasts that as a result of this value shift, mass politics will increasingly be elite-challenging rather than elite directed. More and more, the public may want to make decisions, not simply to elect decision-makers and increasingly, the public will be capable of expressing its preferences with far greater precision.

There is also mounting evidence that today's serious class differences

strikingly revolve not around economic questions but around social and cultural issues. Social classes may be emerging around levels of education as they once did around levels of income. Receptivity to new values and practices climbs steadily with each upward step on the educational ladder.

Sharper value differences between groups may increasingly subvert the decisions made in large institutions. For example, one recent law suit, brought by a Federally funded legal aid group against the University of California, seeks to stop development of labor saving devices because such devices put migrant workers out of jobs.

Earlier TAP reports have noted a shift toward more qualitative than quantitative considerations in decision-making. Political bureaucracies could be breaking down under the weight of the qualitative concerns of a pluralized society. Changes in the institutions themselves, such as the breakdown in the committee structure of Congress, indicate that over-responsiveness to interest groups may be damaging the entire political system. And the problem is compounded by the media, which amplify the effectiveness of social protest (witness the farmers' use of anti-Vietnam War tactics by blockading Washington, D.C. traffic) and of interest groups. Some political scientists believe the problems of overloading the political system will be fairly short-lived since serious problems (such as scarcity) could create a demand for quick, efficient, central responses. But, since the government is exercising increasing control, any fluctuation in political decision-making systems is destined to have a significant impact on the private sector.

Science and Policy Decisions

There are two reasons why it is important to consider science in a discussion of changes in decision-making.

First, in the industrial age world view, science is the highest authority. Therefore, challenges to science can be seen as one part of a transformation to a new manner of making sense of the world. Second, it has become clear that the stakes are highest in scientific decision-making since such decisions may mean the difference between a utopian future or global destruction. There is, consequently, a sense of urgency about the scientific decision-making process that is not apparent in other sectors.

"The non-scientific public is now well aware that modern science and technology directly impinge on our very existence . . . As a result, there has been a marked increase in the public's interest in participating in decision-making about the direction, priority, and scale of scientific activity, and the ways in which it is used."

Richard C. Atkinson
Director of the National Science Foundation

The fundamental question raised in TAP abstracts is: "In view of the social and economic costs of scientific decisions, and in view of technologies' limitations, who should control the scientific policy decision-making process?"

Science has always existed in a social context and consequently it has never been free from some type of regulation. But as the public is becoming increasingly concerned

"The fact that a nuclear moratorium initiative made its way onto the ballot in six states in 1976 serves to illustrate that there is a conflict between anonymous 'expert' public decisions made at the highest (national) level, and the more immediate wishes and concerns of smaller aggregates of people in geographical areas that are in some way politically distinct . . . We fully expect that such conflicts will grow in number . . ."

"Nuclear Policy and Public Participation,"
by ***Lettie McSpadden Wenner*** and ***Manfred Wenner***
in the ***American Behavioral Scientist,*** November/December 1978.

about unwanted by-products of science and technology—including oil spills, nuclear reactor fallouts, urban black outs and industrial carcinogens—there seems to be increased support for subjecting science to more external controls.

This feeling is intensified by a greater awareness that institutions use scientific expertise to support their interests and, as a result, that institutional values permeate the decision-making process and influence the objectivity of technical expertise. Other factors behind challenges to elite control of science and technology are mounting anxiety about the abuse of power and the perceived failure of current ethical and governmental restraints.

At the same time, concern about health and safety has led to a more sophisticated awareness of the social costs related to scientific advancements and greater concern about long-term risk.

But there is confusion about what type of external controls should be imposed on the scientific process, and by whom. Just as in the political sector, citizens feel part of this control should be exercised through direct citizen participation.

There are a number of examples of citizens trying to exert control over scientific research. The best known incident may be the hearings held by the city of Cambridge, Massachusetts to consider whether or not recombinant DNA experiments should be conducted within city limits. Examples in TAP abstracts include patients refusing to take part in medical research because they do not want to be given a placebo rather than a potential cure; the difficulty social scientists are having in conducting survey research because of the value that many individuals place on their privacy; the public questioning and even rejection of government findings about the hazards of certain chemicals, and lawsuits against the Army and the CIA as a result of experiments with hazardous substances.

The central problem with citizen participation in science is the dissemination of scientific expertise, or finding a way to help the public understand science. While public interest science groups (such as the Center for Science in the Public Interest) have tried to help citizens make sense of scientific complexities, many scientists still feel uncomfortable about stepping into the public arena to resolve questions. Some feel that science has become so complex, the public simply cannot understand the issues.

The problem of disseminating scientific and technological expertise has been tackled in some ways. In The Netherlands, for example, "science shops" have been established. Located at five Dutch universities, these "storefront" science advisory groups attempt to promote socially relevant research in universities, to relate this work to the needs of society, and to provide client groups with technical information. According to *The Bulletin of the Atomic Scientists*, these so-called science shops' "experience with action research—that is, working *with* their clients instead of just *for* them—shows that workers and community residents, too often merely treated as passive victims, can themselves contribute to the analysis of hazards posed by technology."

But as citizens gain rights, researchers lose prerogatives. Commenting on this phenomenon, National Science Foundation director Richard Atkinson forecasts that scientists will enjoy the right to free inquiry precisely to the extent that they demonstrate the conscientious exercise of their social responsibilities.

The trends toward increased citizen participation in science and re-evaluation of the goals and purposes of scientific institutions mirrors activity in other sectors.

This simultaneous outcropping of challenges to decision-making in various institutions supports the premise that institutions should take their own challenges more seriously. And so also with each individual. An individual who gains more rights on the job, more rights as a consumer

"Science is just going to have to learn to bear with it."

David Clem,
Cambridge City Councillor
commenting on local
recombinant DNA hearings
in ***Science,*** July 23, 1978.

". . . decision-makers with few exceptions focus on their near term special interest . . . elected officials on how to get re-elected, businessmen on how to maximize this year's earnings, authoritarian leaders on how to survive, and the news media on what is newsworthy today."

Russell Peterson, former director of the U.S. Office of Technology Assessment

and who is more concerned about the effect of technology upon his life, is more likely to participate in other decisions; the activities reinforce each other. This reinforcement could accelerate the speed and strength with which the participatory movement affects all institutions.

Corporations and Decisions

Corporations have never been larger or more powerful than they are today, but paradoxically, many corporate executives feel more threatened by external pressures than ever before.

One reason for this paradox is that the classical rules of corporate decision-making are in flux.

TAP #17, The Changing Nature of Work, described some of the pressures on decision-making within the corporation: the tensions created by the post-World War II baby boom cohorts moving through the labor force; the new emphasis on flexible work schedules and work styles (such as flex-time, task forces and work teams instead of assembly lines); the enunciation and expansion of workers' rights and the increasing demands for constitutionalizing the workplace; the government regulations that cover selection, promotion and firing of workers; employee demands for support and services from the work place formerly associated with other institutions (drug and alcohol counseling, career training, day care).

We turn our attention, then, to selected ideas that have surfaced in TAP which represent external challenges to the corporate decision-making process. Seven factors (still in large part outside the mainstream of society) loom as illustrations of developing counter-forces to increased corporate power and control.

1.) *The public continues to distrust corporate decision makers.* Business people are understandably sensitive to this. Survey research data are being followed by executives with the same careful scrutiny of doctors analyzing a failing patient's chart. A typical finding is that of Yankelovich, Skelly and White who found a 55 point drop in the public's confidence in business between 1968 and 1977.

There are as many explanations for this decline as there are management consultants, but four distinct themes are sounded in TAP abstracts that indicate deep public distrust of business may continue.

First, the feeling is strong that business has not used its power to advance social well-being. In a 1978 nationwide Council survey, only 17 percent of the public clearly agreed that large corporations are responsive to the needs of the public. There is, however, continuing disagreement about who should bear the costs in a society where social responsibility is shifting. There is a built-in conflict between the profit motive and social responsibility. *Second*, the charge that the market system is undemocratic, or as political scientist Charles Lindbolm states, there may be "fundamental and persistent undemocratic elements in systems founded on private enterprise." *Third*, the charge is frequently made that decision-makers sacrifice future well-being for short-term profit. *Fourth*, many social analysts contend that today's managerial class is part of the problem, not part of the solution. The old-style entrepreneur is an endangered species and a professional class of managers, "committeemen", weaned on post-World War II boom years and protected from the environment by organizational layers, has replaced him.

"The feeling that 'bigness' automatically means 'badness' crops up again and again in the survey data."

Seymour Lipset and ***William Schneider*** in ***Public Opinion***

Do management-dominated, highly diversified enterprises have the strength to steer organizations through the rough times ahead? Many observers believe they do not. The growing obsession with the need for more information, and for more perfect data, is offered as partial proof that managers themselves feel they aren't in control.

Another vulnerability is that management's loyalties are not exclusively devoted to their employers;

peer approval, for example, is of utmost importance to professionals. There seems to be growing separation between the ideals and goals of a business firm and those of many of its employees. Columbia University Professor Eli Ginzberg sees evidence that the current college-educated professional and managerial class may "proceed to advance their own interests and aims, and succeed in usurping decision-making power" within the American industrial structure.

2.) *Concern about corporate size may be leading to a growing demand for public participation in corporate decisions.* The trend toward the increasing centralization of authority has unsettled the public. In today's "newspeak," to use a term coined in *1984*, bigness equals badness. A Conference Board Information Bulletin on Antitrust and Corporate Responsibility picks up the same cue: "People sense that vital decisions are made elsewhere . . . that they are not consulted and have no part in the business decisions that affect them."

Concern about corporate size has led to attempts to assert more public control. In a *Saturday Review* article, "The Corporation as Public Enemy #1," David Ewing notes that ". . . whereas Americans have a constitutional method for controlling Washington and City Hall, they have no such method for controlling industry."

Proposed methods for controlling industry include various changes in board representation. New forms of corporate governance are in the air. Harold Williams, chairman of the Securities and Exchange Commission, says that he has a "high level of confidence that board structure will be one of the central points of attack when next a Federal solution is proposed to remedy perceived corporate failures." In this connection, the Senate Subcommittee on Citizens and Shareholders Rights and Responsibilities has been engaged in drafting legislation which would address directly the composition and structure of corporate boards.

One indication of potential public support for such legislation emerges from 1978 Council research, which showed that while one-third of the public had no strong opinion, 43 percent of the public agreed with the statement that "the government should require major corporations to appoint representatives of public interest groups to their Boards of Directors" and only 21 percent disagreed.

Activists are prepared to take advantage of the public's mood. A participant in a consumer-labor union forum suggested a "Corporate Reform Act" to set forth the rights of shareholders and employees; require annual disclosure of financial operations; create a government "Department of Corporate Control" to oversee business compliance with Federal laws and seek court orders

"As a result of insulation from community and employee control, corporations appear to much of the public as castles on a well-defended archipelago. While in generations past this insularity might have been tolerated out of respect for authority, it is not today."

David Ewing, Executive Editor
Harvard Business Review

for temporary trusteeship of violators; write rules for voting on corporate officers, directors and referenda; include "public responsibilities" among corporate fiduciary responsibilities; and make corporate bribery, fraud and other offenses Federal crimes.

Two other activist issues relate to greater outside control of corporate decisions: one calls for curtailed corporate political activity, particularly Political Action Committees (PACs), and the other reacts against issue advertising, which some activists feel distorts the political process. Henry Fairlie's comments in the *New Republic* on one corporation's issue advertising campaign sum up the controversy. He said the company saw ". . . a society that had arrived

"Unless the battle against inflation is fought with more courage and originality than it has been up to now, we, the people, are moving closer and closer to taking our destiny into our own hands. The rage of the 1960s then may be child's play against the fury of the 1980s."

Sylvia Porter,
Newspaper Columnist

in which they could reach beyond the parties or the unions, even the churches or the family, wherever the opinion of an audience used to be formed and then sustained, to each little pocket of a self, isolated and self-certain, self-certain because self-proud, self-proud because made so by the strongest manipulative private interest that any society has ever known." As a result of the spread of multinationals, many of the activist issues and proposed controls of corporations have attention around the world in forums like the UN.

3.) *A focus on "economic democracy" could foreshadow new decision-making regarding the allocation of capital.* The *New York Times* already has called for the death of the throwaway society and the birth of a new ethic of economy. The midwife of the new frugality may be inflation.

Futurist Hazel Henderson comments that power is the control of resources—so that no one in today's world of scarcities is in control. Others feel that resource scarcities will create more power struggles. But in either event, the development of resource scarcities is related to turmoil in the decision-making process. Proposition 13 is the most obvious example of public efforts to control resources—in this case, capital.

Another example of this trend can be seen in union activities, as they seek new issues that relate to the changing needs of their constituencies.

In an article based on the People's Business Commission book, *The North Will Rise Again: Pension Power in the 1980s*, authors Randy Barber and Jeremy Rifkin say, ". . . the notion has begun to spread that those who own the funds should have some say in their management. At the same time, people have started to become aware that no investment decision is 'neutral,' and that increasing resources scarcity means that every decision to invest a dollar in one place rather than in another has social and political ramifications." The International

Chemical Workers Union has already taken a position on pension capital, demanding "investment with representation" and that pension fund administrators not invest in a specified list of anti-union or runaway shop companies.

4.) *Corporate operations based upon social agreements concerning authority, contracts and property are undergoing redefinition.* Corporations are affected by the reverse of the psychology of entitlement; as individuals began to regard certain services as rights rather than privileges, corporate rights began to be redefined. The social agreements underlying business activities have already been redefined to some degree; business no longer has an absolute right to control personnel practices (recruiting, hiring, firing and retiring); competitive practices (advertising); and other practices (polluting and redlining) which are considered to have a deleterious effect upon the community. The trend has been to hold corporations accountable for the impact on society of their actions.

Some corporate leaders are concerned that if these trends continue, and if corporations do not respond to public demands, the public will ultimately make it impossible for corporate institutions to function. As one TAP workshop participant put it, "The corporate executive can either share half his power or lose all of it."

These shifting social agreements have been reflected in a different type of Federal regulation in the last decade or so, and it has become common to voice concern that the new limitations on business are crippling it. For example, in a 1976 Public Policy Working Paper, *Can the Corporation Survive?*, Michael Jensen and William Meckling, dean and assistant dean, respectively, of the School of Business of the University of Rochester, discuss incidents of the government "dismembering the private rights system." Messrs. Jensen and Meckling contend that the shifting rules about contracts, investments and property—as manifested in government regulations—are seriously debilitating business. They argue that the result of this uncertainty could cause "the corporate form of organization . . . to disappear completely."

"In the 19th century, corporations derived their authority from the notion of property rights. In the New Age, corporations would derive their authority from the people, or more precisely, from the consent of all the people involved in an enterprise."

Jaroslav Vanek
(Economist) in
New Age Politics, by Mark Satin

5.) *Corporations will be expected to meet new social goals, including an expanded concept of fairness.* Corporate investment decisions can either revive a community or seriously damage it. The related sense of dependency has prompted concern about whether given corporate decisions are fair to the people they affect. For example, regulated utilities have been challenged about "fair" rates of return, or whether it is "fair" to locate a plant at one site or another. Controversies over the "fairness" of shutting down plants are becoming increasingly common. The emphasis on fairness also underlies the new equality of the sexes (see TAP Special Report on Freedom and Control) and extends to areas such as the redistribution of income.

In addition, new social goals seem

"The forcing functions of greater affluence, rising levels of education and proliferating information technology have created the conditions for a value conflict between (a) a more probing and questioning attitude toward authority, greater institutional accountability and individual self-actualization, and the claim to a direct say in decisions that affect one's life and work, and (b) the priorities of orderly organization, the benefits of discipline entrepreneurship and expert authority, and the incentive to own, risk and manage."

Walter Hahn and ***Dennis Little,***
Congressional Research Service, May 1978, from
Some Possible Future Issues.

to play a part in Senator Kennedy's bill to limit conglomerate mergers. Witnesses at a hearing on the bill argued that "allowing big companies to get together puts too much clout in the hands of a few corporate decision-makers and leaves workers and community leaders increasingly helpless . . . ." In these hearings, social goals received more emphasis than economic ones.

6.) *Simultaneous trends toward more corporate planning and more employee and public participation could create conflict.* In a fast changing world, there is a greater need for planning, as is evident by the burgeoning number of corporate strategic planning efforts. But the public participation drive may prove to be incompatible with centralized planning and is yet another example of the increasing conflict between equality and efficiency.

In a 1977 Harris survey, 77 percent of the public said they would like to participate in community decisions that affect their lives and 80 percent of the public surveyed by Gallup in 1978 said they would be willing to volunteer their time and efforts to help solve their cities' problems at the grass roots level.

This desire to participate could be thwarted by an increased reliance on planning, which some people argue removes decision-making power from the individual and is a form of elite control.

In a recent *Harvard Business Review* article, Ted Mills, director of the National Quality of Work Center, forecasts a clash between planning and participatory decision-making styles. That clash may have already occurred in Sweden, where social changes often foreshadow similar changes in the U.S. and other countries. The Swedish confrontation occurred when both the Swedish and Norwegian governments, the Volvo management and the unions agreed on a sale of 40 percent of Volvo to the Norwegian government. But the planners didn't count on the reaction of one group that felt it had a right to participate in the decision—the Swedish Shareholders' Association. This blocked the sale. An increase in this type of confrontation would foreseeably inhibit results-oriented management.

7.) *Slowdowns in corporate productivity and innovation could amplify the demand for decentralized decision-making.* Productivity rates and corporate innovation in the U.S. have been slipping. The common trade posture of protectionism, the conservatism of managers of certain types of investments (such as pension funds), the higher cost of "downtime" (from strikes to computers), and the inability of the service sector to stockpile services (as manufacturers store goods) could combine to make American corporations even more oriented toward the *status quo*. Yet a build-up in both productivity and innovation is urgently needed for the growth of Americas future. TAP abstracts increasingly address the present and future importance of productivity and innovation.

In some fields, notably the computer industry, innovation is coming from very small businesses or from individuals, rather than from corporate bureaucracies made inefficient by the weight of decision-making. A U.S. Commerce Department study indicating that productivity was higher among employee-owned companies than among comparably sized companies in their respective industries, also related higher productivity to decentralized decision-making.

Decision-Making in the Future

New forms of making decisions are thus emerging as a consequence of the cultural transformation and the expansion in information and communication technological capacities. MIT Professor Donald Schon characterizes this emerging pattern of change as a series of elemental shifts from:

- Component to system and network
- Product to process
- Static organizations (and technologies) to flexible ones
- Stable institutions to temporary systems.

Increasingly, the social order is

"It is our further contention that leaders are becoming obsolete, that large-scale units of both the economy and politics are actually social dinosaurs, lumbering toward a time when the urgent demands of practical nature will make them extinct and obsolete. Mineral resources will simply not support the waste and concentrations of power which are the natural food of great leadership. Rising aspirations of people generally to be more than pawns in great power plans certainly challenge the ideas of great and concentrated power. But, most of all, the simple and obvious failures of great leaders and great powers to come to grips with what really bothers people would seem to us to spell the slow beginning of the long end of traditional, concentrated power and hierarchical leadership."

From ***Neighborhood Power,*** by ***David Morris*** and ***Karl Hess***

conceived in terms of *process* rather than *structure*. This shift is taking place in modern science (from Newtonian to Einsteinian), in the reallocation of theology and in business (from balance sheets to cash-flow statements). Given present indications, a strong process orientation in the future would stress flexibility and collaborative styles and emphasize concepts like purpose determination and systems approaches to problem solving.

Such shifts are apparent in TAP material about new grass roots organizations which may be the precursors of future organizational forms. These groups have several characteristics: they believe in a process of shared control rather than hierarchy, and they believe the function of an organization is to respond to the needs of its constituency as the constituency defines those needs.

After studying contemporary U.S. grass roots movements, anthropologists Virginia Hine and Luther Gerlach categorized these emergent forms of organization as SPIN. The acronym SPIN stands for the rather clumsy phrase: Segmented, Polycentric, (In) Networks; or loose-knit groups in a multi-centered form.

These *ad hoc* egalitarian face-to-face groups are here today and gone—or reorganized tomorrow. Unlike conventional models, a SPIN organizational chart would look like a "badly knotted fishnet, with a multitude of nodes of varying sizes, each linked to all the others either directly or indirectly." This type of group, however, can exert real influence. Such a group stalled nuclear power plant construction at Seabrook. Similar groups have convinced insurance and banking corporations to change policies and have won changes in state housing laws. Local SPIN-type organizations may represent a major realignment of political forces, replacing the political machine, churches and civic groups as mechanisms for providing social services and redressing grievances.

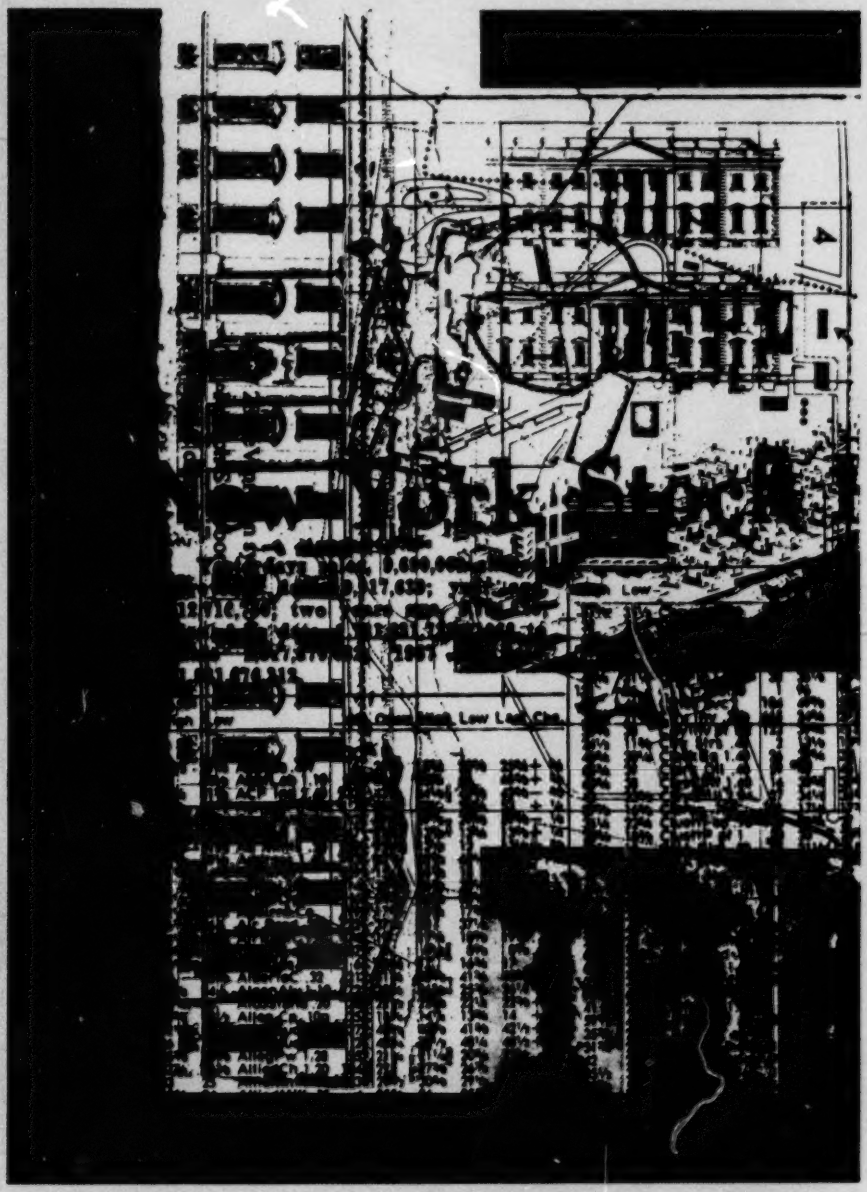
If SPIN organizations are the wave of the future, establishment elites may find it more and more difficult to locate single leaders with whom to negotiate, or may win one battle only to find new organizational opponents. As informal networks emerge, they may become new special interest groups capable of forming unexpectedly strong alliances.

The question about current establishment institutions is whether or not their structural organization can accommodate change. Are institutions equipped to deal with the growing complexity of problems? Can "vertical" structures like our current institutions cope with the increasing number of "horizontal" problems, problems which cut across organizational lines? Can corporations generate systems innovations when their executives have devoted so much of their time to product modifications and development?

The interplay of these social forces with future technological developments will create more rapid and more dramatic change in the decisional environment.

As noted, the distinctions between information and communications technologies have already begun to blur. Typewriters, televisions, telephones, computers and stereos will all be part of an interrelated system. Once it is possible to activate this system by voice command in the not-too-distant future, it will be even easier for most people to use sophisticated technologies. The role of many institutions is to analyze, process and redistribute information; to structure knowledge. As technology changes this process, the need for many specialist workers, and the need for some types of institutions will disappear.

Information is necessary to decision-making. It has become as fundamental a factor of production



"The challenge to the 'governance' institutions may, in many cases, be the reverse of their role in the past, which was to optimise conformity and stability. Their emerging task may be the *optimisation of diversity* in a social climate of continuing change."

From ***The Changing Information Society***, by ***John McHale***

as money or manpower and it seems to be one of the few resources we are not running out of. Given this importance, it seems inevitable that the Information Era will bring a new understanding of information as a commodity and an increased desire to impose control on the information process.

Institutions, presently housed in buildings, provide their inhabitants with a sense of physical boundaries, inside and outside, of internal and external affairs. But in an electronic community, this distinction is lost. Physical boundaries will be replaced by electronic systems which are much more flexible and potentially more permeable. In a future electronic ecology:

- Computer conferences using institutional data may be open to interested parties, who will "work" with the data for their own information or just for personal pleasure;
- Stockholders may meet via multi-way video, and the public could tune in on their home screens;
- Financial data could be analyzed by anyone with an interest in it;
- The government could decide to appoint a "data keeper" (as has been done in other countries) to see that it is not hidden or abused;
- Information about any institution could be routinely available and continuously updated on a teletext system;
- New concepts could emerge about the ownership of information; citizens may "own" the right and sell it to institutions only as they see fit; or "information utilities" of a quasi-government nature could be created;
- There may be increased concern about alienation and the impersonality of electronic systems;
- The population could be redistributed once people no longer have to live near their workplace;
- Security systems for computers might not be developed fast enough to meet the demand.

Conclusion

". . . we have rushed to create bureaucracies of such extreme levels of scale, complexity and interdependence that they now begin to exceed our capacity to comprehend and manage them. We are discovering that the power to create large, complex social bureaucracies does not automatically confer the ability to control them."

From ***"Limits to Complexity,"*** in the ***Futurist,*** by ***Duane Elgin*** and ***Robert Bushnell***

The pressures identified in this report—the rise in educational levels, the perceived failures of institutions and leaders, the value shifts and new attitudes toward authority, the perceptions of scarcity and concern about complexity, the rising power of localities and the increased sensitivity to the changing geopolitical structure—may be seen as responses to current problems of complex systems.

TAP, however, sees a powerful new force taking shape which will influence future decision-making processes. This force is emerging from the interaction of the cultural transformation and the new information technologies identified in this report.

Our current analysis allows us to make some generalizations about potential social challenges to corporate decision-making:

- A potentially serious crisis of legitimacy and stability for all institutions;
- Increasing calls for business to justify not only decisions, but the process by which decisions are made;
- A breakdown of the boundaries between corporations and the rest of the society. (As the boundaries continue to become more permeable, it is easier for ideas which germinate in universities or among a counter-culture elite to find fertile business soil);
- More questions with a global orientation;
- Conflicting demands upon institutions from SPIN-type groups, each of which feels it has a right to participate in the governance of institutions;
- More emphasis on the individual and a demand for services that recognize and respond to individual differences;
- Serious proposals for decision-making by plebiscite, at the state, local and national level.

TAP is drawn to the conclusion that these challenges contain the seeds of shifting societal images of a desirable future. Redefinitions of the concepts of fairness, ownership, appropriateness and efficiency seem inevitable. As these concepts are re-evaluated, they may form the basis of a new social contract; one that questions the efficiencies of the status quo and that values process over structure.

Technological trends will force additional social change. For example, with the spread of new information technologies, material property will no longer be the sole source of economic power.

A few institutions have already begun to consciously try to adapt to some of these changes. Others have not. The key struggle in decades ahead could be an institution's struggle to survive—and whether an institution survives may depend on whether it uses fluid decision-making systems or decision-making systems that are locked into rigid patterns.

Implications

for Life and Health Insurance Company Management

Legislative

1. Life insurance companies face increasing scrutiny by state legislators—not only as insurance companies but as business institutions, with the imposition of more public control in prospect.

Several states, for example, have already enacted legislation which requires business firms to give advance notice to the authorities when the closing or relocation of a plant is contemplated. The purpose is to involve government at an early stage so that any serious social or economic impact on the community can be dealt with.

The prospect of intrusion by government in business planning will further complicate management decision-making. If private insurance firms are expected to provide advance information about their proposed activities, they will have to augment their legislative monitoring activity by analyzing non-insurance bills which could seriously affect their planning.

2. Ralph Nader and the public interest groups he has created cannot be taken lightly. Mr. Nader is focusing on the way major corporations conduct their affairs, including greater shareholder rights and relationships, employee ownership of the firms they work for, broader economic and social disclosure, and the residual responsibilities of a corporation after it leaves a community. The Nader approach will now be to organize grass roots activists to deal with these issues.

Consumer issues may take on new importance at the local level. That being the case, it will become important for companies to strengthen their liaisons with community groups and their leaders. Companies will find it useful to monitor their immediate environment in order to anticipate local issues while they can still be resolved, particularly before legislation is enacted.

As there is more activism on the local level, companies will do well to find out more about local groups. Since SPIN-type groups (see report, p. 18 for definition) may function without outstanding leaders, or form and re-form according to the issues, it becomes more important for companies to know who the players are and who is promoting different issues.

3. Legislative proposals to enforce corporate accountability are receiving increasing scrutiny at the Federal level and are likely to have the support of the public. In the present climate of public alienation and negative attitudes toward business, business can anticipate further legislative interest in the corporate governance area, a current example being Senator Howard Metzenbaum's prospective bill to set minimum governance standards for the nation's top 1,000 corporations. This apparently will require (1) independent directors to make up a majority on boards; (2) cumulative voting for directors; and (3) open directors' nominations to shareholders.

While more immediate national concerns may delay such reforms, business firms would be well advised to prepare for another, perhaps stronger round of criticism of the private sector as it operates today.

4. As new communications and information technologies continue to shrink the world, the influence of developments outside North America will become more apparent to business in our own hemisphere. Codes of business conduct, business operating guidelines, and standards for foreign investment and multi-national companies are being formulated by third parties (such as the UN Code of Conduct for Transnational Corporations, and the OECD Declaration on International Investment and Multinational Enterprises and Guidelines). Model codes often serve as a basis for legislation, so it will be helpful to keep track of them as precursors of the future.

Public Relations

1. A growing number of private groups are joining in the political decision-making process. This could lead to a series of stalemates, making it more difficult for business leaders to achieve meaningful results of any kind. Carrying this to an extreme, if Congress' ability to get things done is impeded, the influence of courts and regulatory agencies would grow, thereby upsetting the balance of authority in our political system.

Accordingly, life insurance companies may have to consider new ways to resolve their problems by making wider use of outside mediators and negotiators.

When trying to enlist public support for or against a specific issue, the "broad brush" approach is likely to be less effective in the future. If the public is deeply fragmented, specific, detailed targeting in public relations—as with marketing—will be required to communicate with particular groups who must be reached.

2. As shareholders, employees and consumerists exert pressure for

greater participation in management decisions, employers—including life insurance companies—may well find themselves in an impossible situation, where they cannot satisfy one group without arousing irreversible hostility in another. One approach might be to consider the views of employees, and others, possibly through periodic surveys, on matters of corporate policy.

3. The report notes increasingly frequent challenges to companies' right to make decisions. One area where these challenges could be particularly difficult is in the area of product suitability. Traditionally, consumers in the marketplace have resolved the question of appropriateness of products, by either purchasing or not purchasing them. But if products are judged outside the marketplace, companies could be forced to abandon them completely.

Another area where such challenges could surface is against companies' rights to decide to go into another line of business—to diversify. Stockholders, for example, could feel it in their interest to stop life companies from going into the broadcasting business or something out of their area of expertise.

4. Conflicting demands of various publics could easily strain a company's management resources; it takes time—and senior management talent—to cope with external pressures. Some companies have responded by restructuring their Boards to include public members, and to some extent this is helping to ease external pressures. Others have recruited managers from outside the life insurance business, thereby staffing themselves with executives skilled in public policy issues.

5. As the public obtains more access to information systems, people will become increasingly interested in the social values of institutional systems. It follows that questions will be raised about decisions that are based on insufficient or inappropriate information.

Two recent examples: nuclear near-disasters and the handling of the DC-10 tragedy. In both instances, the public felt that the decision-making agencies and techniques used were not adequate for the serious nature of the consequences.

Although quite different in some respects, the risk classification system, now being increasingly challenged, may raise similar problems for the insurance industry. To avoid this companies should actively engage in the process of self-examination and be able to justify the system as not only essential to the private insurance sector but in the public interest as well.

6. New social goals are already being institutionalized as government policy. A recent example is a U.S. Labor Department ruling that it is both appropriate and legal for fund beneficiaries under ERISA to consider social goals as investment criteria; that if two investments are substantially the same, a decision can be made on social criteria. Under this interpretation, pension fund investments can be used to support housing needs in a particular state or region.

If, as some analysts predict, private pension funds will provide almost half of all capital raised by U.S. corporations in the next decade, a company's profitability could well depend on the sensitivity of its management to social goals.

7. This report points out that the concepts of fairness and efficiency are evolving. One place this evolution is evident is in discussions about the right to privacy. The concept of what is "fair" in matters of personal privacy is changing rapidly and is being reflected in law as well as public attitudes.

In the past three years alone, five states have passed laws giving employees in the private sector the right to examine their personal files and specifying other rights of confidentiality in the handling of employee records by employers. Additional restrictive legislation can be expected, applicable to employers and applicants for policies. Companies have already begun to re-evaluate their need for traditional information with a view to reducing their requirements to an absolute minimum. By accelerating this review promptly and communicating positive results, life insurance companies can help to forestall mandated limitations on their capacity for independent judgment.

8. Trends in the report indicate more attempts by the public to participate in investment decisions, particularly in pension investments.

A recent Louis Harris poll shows that 47 percent of private pension plan participants feel that pension funds should not be invested in companies or countries with socially undesirable practices; 84 percent of them adding that investments should be withheld, even if it means a lower return on investments, with reduced benefits to the participant. This means almost half the public has strong feelings about social criteria for pension investments.

Add to this the leverage that trade unions can exercise through pension funds, the next decade could witness increasing intervention in pension fund decisions. Since there seems to be more activity developing in local matters (in contrast to national solutions) there exists a strong possibility for new and persistent demands for administered funds to be re-invested locally.

Life insurance companies can take better advantage of the communications values of their local investments, just as some banks did when forced to do so by the Community Re-Investment Act. Companies can also re-examine their criteria of socially beneficial investments, at least with some flexibility in mind. These facts must be dealt with candidly in communicating with the public, including any concerns that some socially desirable investments may reduce the overall rate of return.

9. The growing demand for more information about and closer public control of financial affairs (such as taxes, investments and pension plans) could easily spread to policyholders. This strongly indicates that life insurance company communications to policyholders will be under much closer scrutiny than ever before.

Companies should re-evaluate the types of information they are providing to their policyholders, the methods they are using to commu-

cicate information and the effectiveness of their communications. Can relationships with the policyholders be strengthened by voluntarily providing more information about company plans and practices?

Companies may also want to consider developing more channels for receiving information and views from policyholders. Some companies have long maintained policyholder advisory panels on general matters. Could this approach also be useful in the investment area?

Human Resources

1. Demands for more disclosure by corporations are likely to pick up momentum as a result of changing attitudes toward authority and new technological capabilities. A recent example is seen in a *Yale Law Review* article calling upon the Securities and Exchange Commission to require disclosure of management financial forecasts.

One by-product: senior executives may be increasingly regarded as quasi-public servants—and accordingly be asked to disclose their financial interests in other corporations, as well as perks, recruiting and evaluation methods.

2. A number of groups are expressing interest in company administrative practices; for example, selecting, hiring, promoting and firing workers. A variety of constituencies and interest groups have suggested that they serve on selection and screening committees, in order to insure fair decisions. Life insurance companies will want to consider the seriousness of these proposals, and whether their current practices, such as succession planning of corporate leadership, need to be re-examined to take into account public and employee interests.

Management can also expect employees to demand more disclosure of promotion and salary information. In some European countries, employees receive special annual reports dealing with promotion and salary information at all corporate levels. Although in apparent conflict with the trend for more privacy, this development has strong roots in the equal opportunity movement, which could sustain it.

Life insurance companies should now consider expanding their personnel departments to deal with the broad subject of effective use of human resource activities.

3. Whenever new technologies are introduced, some workers are inevitably displaced at the same time that new types of jobs are needed. Life insurance companies, as leaders in the application of technology, may face two expensive alternatives in the Information Era: slowing their acquisition of capital-saving technologies or retraining large numbers of workers. One way to anticipate this situation is through flexible work patterns (see TAP #17, "The Changing Nature of Work") so the transition, for employees at least, will not be painfully abrupt. The use of video and computer-based training systems should be helpful in providing a better base for changes as they come.

Marketing

1. The public's growing sense of financial sophistication, together with the use of more advanced electronic information and payment systems, will result in growing competition among all financial institutions. Nationwide electronic financial systems and marketing pressures already portend the availability of life insurance products nationwide from non-life insurance companies. For example, banks are going electronic as fast as possible.

2. A merger of information and communication technologies in the near future will change both agent and non-agent delivery systems in the business. Benefits of these new technologies could be numerous. For example, by conscientiously improving direct policyholder and agent services, companies could pave the way to marketing additional coverages.

The availability of two-way cable television, home computers and systems that connect with large central data banks can be used to give life insurance consumers and agents direct contact with the home office, both for sales and services. (See Implications Section, TAP #10, "Frontier Technologies: Information Science"). The role of the field force should be carefully examined in the light of these technologies and new ways of exploring the unique advantages of the agency system should be sought.

General

The implications section of this report has singled out for attention some of the issues expected to be particularly important in the near-term future: corporate governance, human resources and investment practices.

But trends in TAP #18 apply to all the issues the industry is currently facing—and will apply to issues that have not yet surfaced. Management will want to examine all of their decision-making processes to see how they will appear under the intense scrutiny of a public with changing expectations.

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The TAP Reports are based on abstracts of articles prepared by a team of over 100 life insurance company executives who serve as monitors in the Trend Analysis Program. These monitors continually track over 60 publications designed to represent new thoughts in American society about trends of significance to the future of the business. The abstracts reflect the observations of the authors of the original articles. TAP Reports also contain pertinent data from other sources. *The viewpoints which appear in this report should not necessarily be considered as representing those of the Council, its member companies, or the Trend Analysis Program participants.*

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TAP #18 Participants

Company officers and experts from a variety of fields (see list of participants) met for a TAP workshop convened by the Council. Workshop participants, after reviewing a draft of TAP #18, analyzed the possible development of trends in this report and contributed some implications for the life insurance business.

Clem Bezold
Director
Institute for Alternative Futures

Ed Cohen-Rosenthal
Associate Director
American Center for Quality of Work Life

Mary Gardiner Jones
Vice President, Consumer Affairs
Western Union

Robert R. Googins, CLU
Senior Vice President and General Counsel
Connecticut Mutual Life Insurance Company

George P. Hinckley
Vice President
The Travelers Insurance Company of America

Dennis Little
Specialist in Futures Research
Congressional Research Services
Library of Congress

Frank Melcher
Vice President, Long-Range Planning
United Way of America

David Morris
Director
Institute for Local Self-Reliance

Leon L. Nonemaker
Vice President, Division Operations
Pennsylvania Light and Power

James S. Turner
Public Interest Attorney
Swankin and Turner

Dr. Alan F. Westin
Professor of Public Law and Government
Columbia University

For further information about TAP #18 contact:

Ronna Klingenberg
TAP Project Director
American Council of Life Insurance
1850 K Street, N.W.
Washington, D.C. 20006

Design: Mark Oldach
Illustration: Kenneth Kratchek